

# PERAC AUDIT REPORT



Barnstable County Contributory  
Retirement System



JAN. 1, 2011 - DEC. 31, 2013





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

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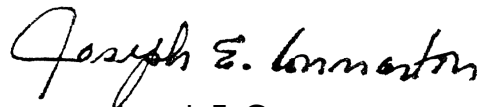
February 8, 2017

The Public Employee Retirement Administration Commission has completed an examination of the Barnstable County Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 2013. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Tivnan, Michael Pasternak and William Walsh who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director





# EXPLANATION OF FINDING(S) AND RECOMMENDATION(S)

## **I. Verification of Current Retirees**

The auditor sampled retirees' files to determine if the superannuation benefit was correctly calculated and that the payroll matches the approved monthly allowance. An inspection of retiree files indicated that an Option D retirement was improperly calculated by the Barnstable County Retirement Board for one of the files selected. In the particular instance in question the daughter of a member received the \$500 minimum monthly allowance which is only allowable to the spouse of the deceased member. Based upon our inspection of the member's file, the survivor should only have received the member's Option C amount of \$426 monthly, as she was not entitled to any other survivor benefits. During an interview with the Board Administrator, she stated that it was the understanding of the Board that the \$500 minimum threshold for allowances to spouses was applied to all designated beneficiaries who received an Option D retirement. Based upon her response a further testing of Option D retirements was initiated by auditors. We did not find other instances where this error occurred. However audit staff believes GL c.32 § 12(2)(d) is clear in this matter as it states explicitly "*The normal monthly member-survivor allowance provided for under this option to a spouse of a deceased member shall not be less than \$250 or \$500 a month, whichever is applicable to such spouse subject to the provisions of paragraph (e) of section one hundred and two;*" All language within above noted section specifically speaks to member's spouse.

**Recommendation:** The language in Chapter 32 section 12(2)(d) noted above is clear in the fact that the minimum allowance applies to spouses only. BCRB should take action to correct any of the Option D retirements processed in a similar manner to this case and take action to see that they are correct going forward.

### **Board Response:**

PERAC's interpretations of M.G.L. Ch. 32 §12(2)(d) as it relates to the amount of a 12(2)(d) benefit to a non-spouse, in the present case, to the daughter of the deceased member is currently under appeal with the Division of Administrative Law Appeals, Docket no. CR-16-330.

## **2. Member Contributions:**

The Barnstable County Retirement System includes 52 unit employers, representing over 4,000 members. Confirming the accuracy of retirement contributions and pay codes in a multiple employer retirement system is an ongoing process. Members' contributions were sampled to determine that the correct rates are being assigned and withheld, and that the additional 2% deduction is withheld from those members who make over \$30,000 annually and were hired after January 1, 1979. The following observations were made:

1) One unit was having issues with their payroll vendor. The additional 2% deduction rate was off for everyone, and the payroll report would not tie to the deduction report. The unit was aware of this problem and was manually fixing the deduction amounts prior to payroll being run. After receiving clarification from this unit that they manually alter the 2% deduction rate from the payroll to tie to the deduction report, there were only two members whose 2% deduction rate was not being withheld when it should have been.

2) A member working for 5 different units had the wrong deduction rate taken from two of them. The member's board membership date was 7/1/94 and should have had 8% taken from each unit, but for those two units 9% was being deducted.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

3) The housing authority's 2% deduction was incorrect for everyone, and for one member their regular deduction was also incorrect.

4) A housing authority unit member receives a monthly stipend for performing duties as a secretary during the monthly board meetings. There were no retirement deductions taken from this pay. This stipend is "pre-determined, non-discretionary, guaranteed payments" and qualifies as regular compensation according to 840 CMR 15.03 (3) (a) and (b).

**Recommendation:** According to G.L. c. 32, § 22(1)(b1/2), 840 CMR 8.03, and PERAC MEMO #43/1999, all members who enter the system after January 1, 1979 and whose rate of pay on any given pay-period exceeds an annualized rate of \$30,000 are subject to the additional 2% withholding. The Board must instruct payroll officials to deduct the additional 2% every pay-period that earnings exceed this annualized rate of \$30,000. A complete payroll register should be obtained from selected member units to monitor and confirm compliance on a regular basis and that retirement contributions on the payroll match up to the retirement contributions on the deduction reports. This function added to the Board's annual 2% deduction audit will provide an additional layer of internal financial control to confirm that contributions are accurate. The Board has a responsibility to enforce compliance with the current determination of regular compensation within the guidelines prescribed in 840 CMR 15.03. The payroll officials should be instructed to begin withholding retirement contributions from the types of compensation that qualify for retirement immediately.

### **Board Response:**

- 1) The two members in question, out of 372, were billed for the under withheld 2% withholding.
- 2) The two units were notified of the incorrect percent and the member in question was refunded the over withheld deductions.
- 3) Any required adjustments on the 3 employees have been made, the most recent payroll shows no issues as of November 2016.
- 4) Any required adjustment has been made and the most recent payrolls show no issues as of November 2016.

### **3. Member Make-up Payment:**

A review of members' files revealed a member who began service with Barnstable County on August 25, 1982, but did not have deductions withheld until January, 1984, was contributing at the 7% rate. The member was notified in 2002 that members joining the system on or after January 1, 1984 contribute at the rate of 8%. After reviewing the member's file, the Board determined that through no fault of the member's, the unit did not commence contributions timely, so the member would not be required to contribute at the rate of 8%, as long as they made the necessary make-up for the period covering 8/25/82-1/1/84. The auditor observed that no make-up payment had yet been received by Barnstable County. The member has since been notified that they have 90 days to make-up this payment, interest free, in the amount of \$954.16 in order to maintain the 7% contribution rate. If they do not make this payment within this time-frame, interest will be applied to what the member owes, and the member will be required to pay back \$10,270 in



## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

order to maintain the 7% contribution rate. If no payment is received, this matter will go before the board again to determine any further actions that need to be taken.

**Recommendation:** The Board must monitor this and ensure that this member pays back what they owe to the Barnstable County Retirement System. The Board has decided to set up a reminder regarding this makeup.

**Board Response:**

The member was sent a revised make-up letter which included interest due on the original payment. Due to the non-payment, the deduction percent was changed to 8% until such time that the mandatory payment is received. The Board has put in place a reminder procedure regarding outstanding mandatory payments.

**4. Board Member Attendance:**

A review of Board minutes taken during the audited years of 2011-2013 and up to present time revealed two Board members did not attend at least 75% of the meetings. One member in 2011 missed over 32% of the meetings while another missed 28% of the meetings in 2012. This level of absenteeism is considered excessive.

**Recommendation:** Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. It should be noted that Board members receive a stipend in consideration for regular attendance and participation at the monthly Board meetings. In instances where a significant level of absenteeism occurs, it is the Board's responsibility to take appropriate action with members who fail to maintain minimum attendance requirements.

**Board Response:**

The Board Meetings for the time periods in question included not only monthly Board Meetings, but Money Manager Meetings as well as Advisory County Meetings and Actuarial Study Meetings. In 2011, sixteen meetings were held, in 2012 eighteen meetings were held, and in 2013 sixteen meetings.

Beginning in 2014 Money Manager Meetings were combined with the monthly Board Meetings. In 2015, the Board adopted the policy of remote participation for Board Members unable to attend a monthly meeting.

**FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2013	2012	2011
<b>Net Assets Available For Benefits:</b>			
Cash	\$912,177	\$886,101	\$492,856
Pooled Real Estate Funds	7,284,079	7,546,759	6,833,005
PRIT Cash Fund	1,050,327	900,485	600,422
PRIT Core Fund	782,848,951	671,961,135	581,617,505
Accounts Receivable	1,888,759	2,259,190	4,425,072
<b>Total</b>	<u>\$793,984,292</u>	<u>\$683,553,670</u>	<u>\$593,968,860</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$234,278,761	\$223,332,422	\$212,582,452
Annuity Reserve Fund	69,077,315	65,397,676	62,223,982
Pension Fund	510,469	2,829,925	5,823,446
Military Service Fund	186,591	110,570	126,262
Expense Fund	0	0	0
Pension Reserve Fund	<u>489,931,157</u>	<u>391,883,077</u>	<u>313,212,718</u>
<b>Total</b>	<u>\$793,984,292</u>	<u>\$683,553,670</u>	<u>\$593,968,860</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2011)	\$204,417,858	\$56,796,622	\$8,911,428	\$126,238	\$0	\$316,186,170	\$586,438,315
Receipts	23,342,843	1,750,373	43,041,103	252	4,083,441	(3,027,467)	69,190,546
Interfund Transfers	(12,171,210)	12,134,813	(17,389)	(228)	0	54,015	0
Disbursements	(3,007,039)	(8,457,825)	(46,111,696)		(4,083,441)	0	(61,660,001)
Ending Balance (2011)	212,582,452	62,223,982	5,823,446	126,262	0	313,212,718	593,968,860
Receipts	24,460,378	1,856,648	46,285,941	119	4,491,251	78,690,328	155,784,664
Interfund Transfers	(10,575,433)	10,625,492	(14,280)	(15,810)	0	(19,968)	0
Disbursements	(3,134,974)	(9,308,447)	(49,265,181)	0	(4,491,251)	0	(66,199,854)
Ending Balance (2012)	223,332,422	65,397,676	2,829,925	110,571	0	391,883,077	683,553,671
Receipts	26,064,806	1,949,313	50,406,803	76,020	5,232,406	97,879,016	181,608,364
Interfund Transfers	(11,812,045)	11,663,969	(20,988)	0		169,064	(0)
Disbursements	(3,306,423)	(9,933,642)	(52,705,272)	0	(5,232,406)	0	(71,177,742)
Ending Balance (2013)	\$234,278,761	\$69,077,315	\$510,469	\$186,591	\$0	\$489,931,157	\$793,984,292

# STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
<b>Annuity Savings Fund:</b>			
Members Deductions	\$23,282,393	\$22,256,763	\$21,471,196
Transfers from Other Systems	972,918	1,059,856	702,034
Member Make Up Payments and Re-deposits	521,469	267,247	323,073
Member Payments from Rollovers	970,728	579,183	406,427
Investment Income Credited to Member Accounts	317,299	297,328	440,113
Sub Total	<u>26,064,806</u>	<u>24,460,378</u>	<u>23,342,843</u>
<b>Annuity Reserve Fund:</b>			
Recovery of Annuity from Reinstatement	4,862	0	0
Investment Income Credited to the Annuity Reserve Fund	<u>1,944,451</u>	<u>1,856,648</u>	<u>1,750,373</u>
Sub Total	<u>1,949,313</u>	<u>1,856,648</u>	<u>1,750,373</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	1,936,328	1,770,064	1,625,736
Pension Fund Appropriation	684,772	693,537	794,768
Settlement of Workers' Compensation Claims	47,751,746	43,750,539	40,584,149
Recovery of Pension from Reinstatement	28,400	71,800	36,450
Recovery of 91A Overearnings	285	0	0
	5,272	0	0
Sub Total	<u>50,406,803</u>	<u>46,285,941</u>	<u>43,041,103</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	75,908	0	0
Investment Income Credited to the Military Service Fund	<u>113</u>	<u>119</u>	<u>252</u>
Sub Total	<u>76,020</u>	<u>119</u>	<u>252</u>
<b>Expense Fund:</b>			
Investment Income Credited to the Expense Fund	<u>5,232,406</u>	<u>4,491,251</u>	<u>4,083,441</u>
Sub Total	<u>5,232,406</u>	<u>4,491,251</u>	<u>4,083,441</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	106,630	107,650	118,153
Pension Reserve Appropriation	789,223	1,971,880	2,463,874
Interest Not Refunded	3,656	3,629	(12,726)
Excess Investment Income	<u>96,979,507</u>	<u>76,607,170</u>	<u>(5,596,768)</u>
Sub Total	<u>97,879,016</u>	<u>78,690,328</u>	<u>(3,027,467)</u>
<b>Total Receipts, Net</b>	<u>\$181,608,364</u>	<u>\$155,784,664</u>	<u>\$69,190,546</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$2,319,687	\$2,192,643	\$1,859,247
Transfers to Other Systems	<u>986,736</u>	<u>942,331</u>	<u>1,147,792</u>
Sub Total	<u>3,306,423</u>	<u>3,134,974</u>	<u>3,007,039</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	9,887,239	9,058,210	8,289,044
Option B Refunds	<u>46,404</u>	<u>250,237</u>	<u>168,781</u>
Sub Total	<u>9,933,642</u>	<u>9,308,447</u>	<u>8,457,825</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	37,618,932	35,186,853	32,879,167
Survivorship Payments	2,224,297	2,057,144	1,820,226
Ordinary Disability Payments	897,222	914,833	843,608
Accidental Disability Payments	9,461,897	8,798,663	8,327,393
Accidental Death Payments	1,034,574	1,000,803	1,002,682
Section 101 Benefits	324,427	266,242	235,675
3 (8) (c) Reimbursements to Other Systems	1,143,922	1,040,644	1,002,947
Sub Total	<u>52,705,272</u>	<u>49,265,181</u>	<u>46,111,696</u>
<b>Expense Fund:</b>			
Board Member Stipend	22,750	17,750	15,750
Salaries	488,832	467,463	465,111
Legal Expenses	82,940	91,230	88,991
Travel Expenses	1,742	8,168	4,604
Administrative Expenses	301,910	279,279	326,487
Professional Services	14,317	41,997	0
Education and Training	3,690	1,260	0
Furniture and Equipment	20,339	482	1,144
Management Fees	4,128,139	3,425,952	2,995,151
Consultant Fees	0	0	7,700
Rent Expenses	123,540	111,058	135,566
Service Contracts	966	3,431	1,148
Fiduciary Insurance	43,240	43,182	41,790
Sub Total	<u>5,232,406</u>	<u>4,491,251</u>	<u>4,083,441</u>
<b>Total Disbursements</b>	<u>\$71,177,742</u>	<u>\$66,199,854</u>	<u>\$61,660,001</u>

# INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
<b>Investment Income Received From:</b>			
Cash	\$1,487	\$1,584	\$1,822
Equities	2,719	12,127	1,389
Pooled or Mutual Funds	21,471,618	20,265,699	17,978,518
<b>Total Investment Income</b>	<u>21,475,824</u>	<u>20,279,410</u>	<u>17,981,729</u>
<b>Plus:</b>			
Realized Gains	34,115,669	16,206,130	17,911,963
Unrealized Gains	88,456,022	84,703,185	58,459,376
Sub Total	<u>122,571,691</u>	<u>100,909,316</u>	<u>76,371,339</u>
<b>Less:</b>			
Realized Loss	(475,226)	(227,046)	(452,146)
Unrealized Loss	(39,098,514)	(37,709,163)	(93,223,511)
Sub Total	<u>(39,573,740)</u>	<u>(37,936,210)</u>	<u>(93,675,656)</u>
<b>Net Investment Income</b>	<u>104,473,775</u>	<u>83,252,516</u>	<u>677,412</u>
<b>Income Required:</b>			
Annuity Savings Fund	317,299	297,328	440,113
Annuity Reserve Fund	1,944,451	1,856,648	1,750,373
Military Service Fund	113	119	252
Expense Fund	<u>5,232,406</u>	<u>4,491,251</u>	<u>4,083,441</u>
<b>Total Income Required</b>	<u>7,494,268</u>	<u>6,645,346</u>	<u>6,274,179</u>
Net Investment Income	<u>104,473,775</u>	<u>83,252,516</u>	<u>677,412</u>
Less: Total Income Required	<u>7,494,268</u>	<u>6,645,346</u>	<u>6,274,179</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$96,979,507</u>	<u>\$76,607,170</u>	<u>(\$5,596,767)</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2013		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$912,177	0.1%
Pooled Real Estate Funds	7,284,079	0.9%
PRIT Cash Fund	1,050,327	0.1%
PRIT Core Fund	<u>782,848,951</u>	<u>98.8%</u>
<b>Grand Total</b>	<u><b>\$792,095,534</b></u>	<u><b>100.0%</b></u>

For the year ending December 31, 2013, the rate of return for the investments of the Barnstable County Retirement System was 15.19%. For the five-year period ending December 31, 2013, the rate of return for the investments of the Barnstable County Retirement System averaged 11.79%. For the 29-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Barnstable County Retirement System was 7.58%.

The composite rate of return for all retirement systems for the year ending December 31, 2013, was 15.57%. For the five-year period ending December 31, 2013, the composite rate of return for the investments of all retirement systems averaged 12.13%. For the 29-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.49%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Barnstable County Retirement System has more than ninety-eight per-cent of their funds invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Real Estate Funds could not be abrogated and remain under the care and custody of the Barnstable County Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the internet at the following address: <http://www.mass.gov/perac/investsup/BarnstableCounty.intsup.html>



# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Barnstable County Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

#### **Group 1:**

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of 797.64 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of 797.64 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. . Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board (retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the) (primarily relies upon the investment strategy of the PRIM Board to maintain their) progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.



## NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Barnstable County Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

#### **Membership**

July 27, 1999

Full-time employees who serve as full-time police, fire or emergency medical dispatchers whose job title is Emergency Telecommunications Dispatcher have replaced the job titles of Fire and Police Signal Operators, as listed in G.L. c. 32, § 3(2)(g) Group 2, provided that no member who attains age sixty-five (65) while classified in Group 1 may thereafter be classified in Group 2.

February 6, 1995

Seasonal employees excluded from membership unless membership has otherwise been established.

Effective January 1, 1995, call fire fighters and reserve police officers regularly employed for not less than 25 hours per week per calendar year (1300) hours shall be eligible for membership.

As of July 1, 1977, eligibility for membership for individuals whose employment commences on or after July 1, 1977 shall be based upon regular employment of not less than 25 hours per week per calendar year (1300 hours) or 25 hours per week per school year (900 hours).

#### **Creditable Service**

February 6, 1995

A part-time permanent, provisional, temporary, temporary provisional, seasonal, or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment shall be given creditable service based on actual service rendered provided that in the case of any such employee whose work is found by the board to be seasonal in its nature the Board shall credit as one (1) year of service actual full-time service of not less than seven (7) months during any one calendar year.

October 16, 1990

A full year of creditable service will be granted to school department employees who are employed for a full "school year".

December 13, 1988

Call firefighter or reserve police officer may be granted full time creditable service not to exceed a maximum of five years prior to the commencement of the member's full time employment. Such service shall be credited only if such call fire fighter or reserve police officer is later appointed as a permanent member of the fire or police department in the same governmental unit. (Revises board's rule #3 approved December 27, 1984 by adding two sentences).

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

December 27, 1984

Pro-ration of creditable service in the case of part-time employees who become full-time or full-time employees who become part-time. Full-time credit shall be considered to be 261 work days and 7 1/2 hours per day, or 1957 hours per annum.

For any part-time, provisional, temporary, seasonal, intermittent or on-call status of employment rendered by an employee prior to, or during membership service status, who becomes, or was employed in a full-time position, shall at the time of retirement, receive full membership service credit for the periods of full-time employment and partial, or pro-rata membership service credit for all categories of less than full-time employment, based upon, as far as practicable, the actual number of hours worked by a regular permanent, full-time employee.

July 1, 1977

Eligibility for membership in the Barnstable County Retirement Association for individuals whose membership commenced on or after July 1, 1977 shall be based upon regular employment of not less than 25 hours per week per calendar year (1300 hours) or 25 hours per week per school year (900 hours) for individuals providing service to any member unit of the Barnstable County Retirement Association.

Employees of member units of the Barnstable County Retirement Association holding part-time permanent positions working not less than 25 hours per week who work the full time required for the position as certified by the Treasurer, Department Head or other authorized entity to determine the hours for each position will be given full creditable service for the services performed in said position. If said part-time employees, however, become full-time employees, the creditable service earned during the member's part-time employment shall be prorated.

#### **Miscellaneous**

October 29, 1990

Change of Beneficiary form

As of July 1, 1977 –Disability Retirement - the Board shall require a one year waiting period between the filing of duplicate application by a member/departments head for the same type (ordinary or accidental) of disability retirement.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the title of ex-officio who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member:	Mary McIsaac, Chair	Indefinite
Appointed Member:	Mary Pat Flynn	Term Expires: 1/2/17
Elected Member:	Mark Foley	Term Expires: 1/5/18
Elected Member:	Robert Rolanti	Term Expires: 12/31/19
Appointed Member:	Judith Sprague	Term Expires: 12/31/17

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	MACRS Blanket Policy
Ex-officio Member:	)	\$50,000,000 Fiduciary Liability
Elected Members:	)	\$1,000,000 (ERISA)
Appointed Members:	)	Traveler's Insurance Company
Staff Employees:	)	National Union Fire Arch Insurance Co.

Use standard disclosure for MACRS participating systems

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Segal Group Inc. as of January 1, 2014.

The actuarial liability for active members was	\$684,303,915
The actuarial liability for inactive members was	22,386,624
The actuarial liability for retired members was	<u>647,119,562</u>
The total actuarial liability was	\$1,353,810,101
System assets as of that date were	<u>776,973,700</u>
The unfunded actuarial liability was	<u>\$576,836,401</u>
The ratio of system's assets to total actuarial liability was	57.4%
As of that date the total covered employee payroll was	\$253,920,106

The normal cost for employees on that date was 9.6% of payroll

The normal cost for the employer was 4.4% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	7.75% per annum
Rate of Salary Increase:	Varies by service in group

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Retirement in Past Years</b>										
Superannuation	112	81	97	93	94	100	137	128	135	139
Ordinary Disability	5	2	3	2	4	3	2	0	2	1
Accidental Disability	11	16	6	21	11	15	10	16	8	15
<b>Total Retirements</b>	<b>128</b>	<b>99</b>	<b>106</b>	<b>116</b>	<b>109</b>	<b>118</b>	<b>149</b>	<b>144</b>	<b>145</b>	<b>155</b>
Total Retirees, Beneficiaries and Survivors	2,171	2,302	2,339	2,413	2,437	2,481	2,495	2,648	2,708	2,787
Total Active Members	5,215	5,306	5,356	5,420	5,346	5,195	4,812	4,710	4,744	4,766
<b>Pension Payments</b>										
Superannuation	\$20,179,934	\$21,375,419	\$22,738,000	\$24,330,518	\$25,744,588	\$27,398,326	\$29,997,228	\$32,879,167	\$35,186,853	\$37,618,932
Survivor/Beneficiary Payments	1,149,720	1,192,560	1,269,008	1,359,771	1,466,605	1,548,989	1,692,407	1,820,226	2,057,144	2,224,297
Ordinary Disability	788,725	774,470	781,106	786,418	739,992	780,611	792,511	843,608	914,833	897,222
Accidental Disability	5,402,366	5,835,695	6,447,773	6,636,089	7,107,835	7,701,100	7,834,604	8,327,393	8,798,663	9,461,897
Other	1,264,895	1,297,102	1,562,575	1,492,600	1,352,744	1,956,935	2,308,699	2,241,304	2,307,689	2,502,823
<b>Total Payments for Year</b>	<b>\$28,785,640</b>	<b>\$30,475,246</b>	<b>\$32,798,462</b>	<b>\$34,605,396</b>	<b>\$36,411,764</b>	<b>\$39,385,961</b>	<b>\$42,625,449</b>	<b>\$46,111,696</b>	<b>\$49,265,181</b>	<b>\$52,705,172</b>

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 7 – LEASED PREMISES

The Barnstable County Retirement Board leases approximately 6,127 square feet of space for its offices located at 750 Attucks Lane, Hyannis, MA. 02721. An amendment was signed extending the lease term to December 31, 2020 and adjusting the payment terms to \$19 per square foot for the five year period 2011 through 2015 and \$22 per square foot for the remaining years 2016 through 2020. The landlord is Renaissance 2000 Trust, LLC.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2013:

<u>For the year ending:</u>	<u>Annual Rent</u>
2014	\$147,048.00
2015	\$147,048.00
2016	\$165,429.00
2017	\$165,429.00
2018	\$165,429.00
2019	\$165,429.00
2020	\$165,429.00

Total future minimum lease payments required     \$1,121,241.00

Total lease payments represent an annual CAM Fee of \$30,635.00 which is payable in twelve monthly installments of \$2,552.91.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### TRANSFER OF PLAN ADMINISTRATION

Chapter 61 of the Acts of 2009, as amended by Chapter 102 of the Acts of 2009, transferred active members of the county sheriffs' departments in Barnstable, Bristol, Dukes, Norfolk, Plymouth, and Suffolk Counties to the State effective January 1, 2010.









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